Method 2. However, they almost all calculated costs dramatically different from those proposed using CCSCIS, as shown below.[64]

Exogenous Costs
Alternative Cost Support vs. CCSCIS
(Dollars in Millions)

	Alternative Cost Support[66]	CCSCIS[65]	Change
Ameritech	$ 6,347	$ 6,024	$ 323
Bell Atlantic	7,680	6,883	797
NYNEX	2,137	3,652	(1,515)
US West	8,880	7,811	1,069
Total	$25,044	$24,370	$ 674

The significantly disparate exogenous costs calculated under the two cost support methods raise doubt about the validity of both the cost model and the alternative cost support. MCI found several apparent errors in the LECs' methodology, but lack of detailed explanation prevented a thorough analysis of the reasonableness of the alternative cost support as well as the discrepancy from the numbers generated by CCSCIS.

For example, Ameritech proposes an exogenous cost increase of $322,122 over the amount calculated by CCSCIS.

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[64] BellSouth, Pactel and SWBT filed additional cost support only with respect to their vertical features rates. BellSouth did not even attempt to delineate its methods of determining costs. Its "loadings test analysis" is insufficient to justify its rates.

[65] Appendix A, Schedule 1.

[66] See Ameritech SDC, Supplemental Description and Justifications (D&J), Bell Atlantic SDC, Workpaper 2, NYNEX SDC at 1 and US West SDC at 2.

It explains:

> For Ameritech's manual calculations, the total investments in the SCP, the Regional STP and the connecting A-Links were collected from Network data. Since this equipment is used to process both 800 Database and Line Information Database (LIDB) queries, the investment was allocated based on the percentage of 800 Database queries to total queries. The unit costs were developed by applying annual charge factors to these investments and dividing the annual costs by the forecast of queries.[67]

Obviously, the equipment described above is used by Ameritech to provide many services and therefore, should not qualify for exogenous treatment. Further, Ameritech does not even explain how the investments were "collected from Network data" or how it calculated its "annual charge factors." Ameritech also fails to delineate LIDB and 800 database query amounts used to allocate investment and costs. Ameritech did not provide any updates to the schedules required by the Commission for this investigation, even though its unit costs have changed in several categories. Thus, Ameritech has failed to justify its rates as its cost support is insufficient to judge whether the costs or cost allocations are reasonable.

Bell Atlantic claims that its alternative cost support:

> not only justifies the rates filed but it would justify a basic query rate 35% higher than the currently effective rate, and a vertical feature package charge more than 600% higher than the effective rate. Without use of a cost model such as CCSCIS, however, Bell Atlantic cannot provide the optimal forward-looking cost support needed for this and other complex rate structures.

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[67] Ameritech Supplemental D&J.

Bell Atlantic's assertions are misleading, if not totally untruthful. First, the exogenous cost of $7.7 million proposed in its revised cost support is 12 percent, not 35 percent,[68] higher than the $6.9 million amount proposed in its tariff. For vertical features, the rate increase is due to a change in demand estimate, not an inability to use CCSCIS. Nonetheless, Bell Atlantic's costs vary by category to an even greater degree than in total, as shown below. On the other hand, NYNEX's costs were consistently higher using CCSCIS.

Bell Atlantic Exogenous Costs
Dollars in millions

	Alternative Cost Support	CCSCIS	Change
Signalling Links	$1,861	$3,119	$(1,258)
SCP	4,769	2,867	1,902
SMS	1,032	870	162
Billing	15	15	15
Repair Center	477	483	(6)
SCP/SMS Signalling Link	86	86	0
Reduction for NXX	(560)	(560)	0
Total	$7,680	$6,881	$ 799

NYNEX Exogenous Costs
Dollars in millions

	Alternative Cost Support	CCSCIS	Change
Signalling Links	$ 183	$1,102	$(698)
SCP	1,289	1,887	(819)
SMS	665	665	0
Total	$2,137	$3,654	$(1,516)

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[68] Perhaps the 35% figure cited by Bell Atlantic includes overhead costs. However, such costs have been disallowed by the Commission and, in any event, will not be impacted by use of cost models versus alternative cost support.

Ameritech's and US West's revised proposed costs could not be determined by category. However, US West's proposed investment for SSP costs in its SDC are three times the amounts originally proposed, and proposed Tandem costs were cut in half.[69] MCI could not analyze these carriers' cost support discrepancies, because it did not have access to the CCSCIS models. However, they leave even greater doubts about the accuracy of both methods.

Most of the LECs who did not use cost models to identify costs, including those who opted to file alternative cost support after rejection of their waiver, use Method 2. For Method 2, the reasonableness of the selected units of usage and demand estimates, both for 800 data base and other services, becomes critical.

Most LECs who use Method 2 allocate between LIDB, 800 data base and other services based upon the number of "queries" for each service.[70] Yet, these LECs have not really demonstrated that a query for LIDB or other services is equivalent to a query for 800 data base service. Additionally, most LECs had not previously charged for 800 service by query and few delineate the specific assumptions used to convert historical minutes of use (MOU) to queries.[71] Nor has any LEC shown that it has allocated investment

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[69] US West also changed its separations method from demand to Part 36. US West SDC at 2. Thus, it unclear whether the discrepancies in investment result from the alternative allocation method between services, or the change in separations factors.

[70] _See_, _e.g._, SWBT at 8-9 and GTE at 16.

[71] Several assert that they converted MOU to queries using an average duration per query, but do not disclose the average used. _See_, _e.g._, BellSouth Exhibit 1B at 4, SNET at 16 and United (continued...)

such that costs have not been recovered more than once for LIDB. For example, SWBT uses 1992 demand for LIDB because "LIDB was not a tariffed service until 1992,"[72] but fails to demonstrate that it has allocated at least as much investment to LIDB as was recovered in the LIDB tariffs.

Demand estimates, both for 800 data base service and for other services, heavily influence the result of cost allocations, regardless of whether a carrier uses Method 1 or Method 2.[73] Yet, in general, the LECs have provided very little information on their demand assumptions. In fact, as MCI demonstrates in Section C.1, below, the LECs have used such disparate and conflicting demand estimates, that their results are unreasonable on their face. Clearly, the LECs have failed to demonstrate that the costs allocated on the basis of these demand figures are reasonable.

3. Several Price Cap LECS Have Improperly Allocated Costs Between State and Interstate Services

The LECs are only allowed to recover the interstate portion of costs, even if these costs are considered exogenous. Obviously, excessive exogenous costs could result from overstated allocations to the interstate jurisdiction. Appendix II, Schedule C lists the methods used by each of the LECs to allocate investment. Clearly,

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[71](...continued) at 19. Bell Atlantic estimates a holding time of 2.32 MOU per query (Bell Atlantic Appendix B at 2) and SWBT used an average of 2.75 MOU per query (SWBT at 15).

[72] SWBT at 8-9.

[73] See, e.g., CC Docket 93-129, Bell Atlantic Ex Parte filed October 13, 1993.

some carriers have allocated costs in violation of the Commission's rules, using demand, CCSCIS or direct assignment rather than Part 36, resulting in overstated exogenous costs and 800 data base rates.[74]

United's case is most clear. Appendix I, Schedule B.1, attached, lists the amounts of investment that the LECs allege were used in determining exogenous costs. Appendix II, Schedule A, attached, shows the amounts of total, subject to separations and interstate 800 data base investment. United's cost support, summarized in Appendix II, Schedule A, shows that if United had allocated investment based on Category 3 of the Commission's rules, only $456,620 of investment and associated costs would have been allocated to interstate 800 data base service.[75] United, however, did not allocate investment and costs to the interstate jurisdiction based on Part 36 rules.[76] This results in several times the investment, a total of $2,674,797 being charged erroneously to the interstate jurisdiction. Costs are similarly misallocated. MCI has calculated that United's exogenous costs

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[74] See Appendix II, Schedule C.

[75] United confirmed in verbal discussions with MCI that its Jurisdictional Separations interstate 800 data base investment in its attachment represents the amount that would have been allocated had United followed Part 36 of the Commission's rules.

[76] "It is important to note that United did not jurisdictionally allocate costs to develop its 800 data base access rates because the costs do not vary by jurisdiction." United at 24. MCI confirmed with United verbally that its costs were not allocated based on Part 36 rules.

would have been lower by $4.6 million had it appropriately separated its investment. MCI's estimate is derived as follows:

	Investment			Costs		
	Cost Support [1]	Part 36 [2]	% [3]	Cost Support [4]	Adj [5]	Cost Disallowance [6]
STP/SCP Signaling Link	$2,675	$ 457	17.1%	$1,456	$248	$1,208
Local STP/Regional STP Signaling Link	194	30	15.6%	454	71	383
SCP	6,772	1,156	17.1%	3,687	629	3,058
Total Disallowance						$4,649

[1] Source = Appendix I, Schedule B.1
[2] Source = Appendix II, Schedule A
[3] [2] divided by [1]
[4] Source = Appendix I, Schedule A
[5] [3] multiplied by [4]
[6] [4] minus [5]

Certainly, carriers cannot be allowed, at their whim, to violate the Commission's rules and choose jurisdictional allocators to maximize their recovery from the interstate jurisdiction. The Commission's rules balance the interests of the jurisdictions, provide consistency and avoid ad hoc allocators that are more susceptible to manipulation. Nor should carriers abuse direct assignment to avoid their responsibilities of the Commission's Part 36 rules.[77]

In fact, carriers' interstate shares are lower in every instance when they follow the Commission's rules to apportion

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[77] See Applications for Review of the Common Carrier Bureau's Letter of Interpretation Regarding the Clarification of the Role of Direct Assignment in the Jurisdictional Separations Process, Memorandum Opinion and Order, 8 FCC Rcd. 1558 (1993).

investment jurisdictionally.[78] Thus, MCI respectfully requests that the Commission disallow $4.6 million of United's exogenous cost and require all LECs to use investment allocators in accordance with the Commission's Part 36 rules,[79] rather than using hand-picked allocators or direct assignment. Those LECs that

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[78] Ameritech, BellSouth and SWBT claim to have used separations rules when allocating investment. See Appendix II, Schedule C. As demonstrated in Appendix II, Schedule B, the LECs allocate widely varying percentages of their investment to interstate, depending on the allocation method used. For example, Ameritech and BellSouth allocate a smaller portion of their STP/SCP signaling link investment (24 percent and 19 percent, respectively) to interstate 800 data base service. United, using Part 36 rules, would have allocated 13 percent to interstate. In contrast, Bell Atlantic, using CCSCIS, has allocated the bulk of its investment, i.e., 82 percent, to interstate 800 data base service for both STP/SCP signaling link costs and local STP/regional STP signaling link costs. Clearly, these variations may have contributed to the apparently unreasonable amounts of exogenous costs reported by Bell Atlantic for signaling costs. It is unclear whether NYNEX, also using CCSCIS, similarly overstated cost allocation, as NYNEX has provided no information on separations. NYNEX Attachment A, New York Telephone A-3, Note 3 and NET A-3, Note 3. US West claims in its direct case to have allocated its investment/costs based on demand (See Appendix II, Schedule C), but provided no information on intrastate demand. US West did provide intrastate demand in a subsequent letter, in which intrastate demand was projected at around 10 percent. See CC Docket No. 93-129, US West Ex Parte, dated October 15, 1993. Thus, MCI surmises that around 10 percent of US West's costs were allocated to the intrastate jurisdiction. US West claims to have changed to using Part 36 in its SDC. US West SDC at 2. However, US West did not provide updated schedules to demonstrate the allocations, nor did it isolate the impact of changing from a demand allocator to Part 36 from the impact of using alternative cost support instead of CCSCIS. Thus, MCI could not evaluate the impact of the change.

With respect to SCP charges, Ameritech and BellSouth allocate lower proportions to the interstate jurisdiction (13 percent and 18 percent, respectively). United would have allocated 17 percent using Part 36 rules. In contrast, Bell Atlantic, using CCSCIS, GTE, using demand, and PacTel, using direct assignment, allocate staggering amounts to the interstate jurisdiction (82 percent, 67 percent and 49 percent, respectively).

[79] 47 C.F.R. Section 36.

have not followed the Commission's rules should be required to reduce their exogenous costs to include only those costs associated with the allowable interstate investment.

Finally, some of the information provided on jurisdictional separations does not seem to make sense. One would anticipate that the 800 investment for purposes of determining exogenous cost (Appendix I, Schedule B) would be the same as the interstate 800 data base service investment allocated using jurisdictional separations (Appendix II, Schedule A). For several LECs, these amounts coincide as expected.[80] However, for Ameritech, NYNEX, PacTel,[81] SNET, SWBT and United, the reported investment amounts for exogenous costs do not match the interstate investment amounts reported for jurisdictional separations.

For example, Ameritech's investment amount reported in the exogenous cost calculation is equal to total investment, or subject to separations, rather than interstate 800 data base investment. Thus, Ameritech claims to have allocated investment using Part 36.124-5. However, when these discrepancies exist, it is difficult to trust that costs represent interstate 800 data base service alone, rather than total or subject to separations costs, especially when United's discrepancy was due to the carrier's deviation in its actual jurisdictional allocation from the

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[80] See, e.g., Appendix I, Schedule B and Appendix II, Schedule A for Bell Atlantic, BellSouth, and PacTel (for PacTel the exception is SCP/SMS Signaling Link, which includes SMS costs as well as investment for jurisdictional separations) and US West.

[81] PacTel SCP/SMS Signaling Link costs do not match.

apportionment on the schedule demonstrating the impact of the Commission's rules.

At a minimum, Ameritech and these other carriers have grossly misstated the amounts reported on either one or the both of these schedules, utterly failing to provide the information requested by the Commission.[82/] MCI requests that the Commission require these LECs to explain on the public record any discrepancy between these investment amounts.

4. Overhead Expenses Should Not Be Treated as Exogenous

Only Bell Atlantic, SNET and United continue to claim that general overhead costs should be included as exogenous.[83/] It is

[82/] Based on verbal discussions, MCI found that, for their Jurisdictional Separations schedules, SWBT reported its interstate costs, rather than its interstate investment and PacTel used a combination of costs and investment. SNET appears to have reported interstate investment on the jurisdictional separations schedule, but does not include any investment amount on its exogenous cost schedule. In its direct case, NYNEX provided no information on its allocations, alleging that separations information is not available on a service specific basis. NYNEX Attachment A, New York Telephone A-3, Note 3 and NET A-3, Note 3. However, its investment for exogenous calculations was higher even than the total investment reported for jurisdictional separations for STP/SCP Signaling Link Investment. NYNEX explained that the investment anomalies were due to errors in transcribing the output from CCSCIS to the schedules. See CC Docket No. 93-129, NYNEX Ex Parte, filed November 15, 1993. NYNEX revised its schedules in a subsequent filing, but its investment for cost development and for jurisdictional separations still does not reconcile. See Notes to Appendix I, Schedule A, B.1 and B.2 and Appendix II Schedules A and B, attached.

[83/] The following LECs had included overhead costs as exogenous in their original tariff filings:

Bell Atlantic	$ 3,924,815
Pacific Bell	$ 1,649,325
NYNEX	$ 1,568,195

(continued...)

difficult to imagine, however, that overhead costs would possibly be eligible for exogenous treatment, i.e., would have been incurred "specifically for 800 data base." Such costs, by definition, are not specifically incurred to support any service, and the LECs' arguments for including them are unpersuasive.

Overhead expenses certainly would have been built into the price cap rates being charged by the LECs prior to 800 portability. Thus, it is ludicrous to allow exogenous costs for such expenses. The LECs may be adding incremental investment, but this should create efficiencies in their networks that should lower the costs of providing 800 service. Clearly, activities resulting in overhead expenses for 800 NXX access will be replaced by others associated with 800 data base access.

Although Bell Atlantic and United both claim that overhead costs were increased incrementally due to the implementation of 800

[83/](...continued)

United	$	697,822
SNET	$	343,338

In addition, Ameritech appeared to have included a loading of overhead costs in its calculation of total exogenous costs (a loading factor of 1.727793 was used). The cost support SWBT, US West, BellSouth, and GTE provided was insufficient to permit MCI to determine whether overhead loadings had been used by these companies. See Provision of Access for 800 Service, Ameritech Operating Cos. FCC Tariff No. 2, Transmittal No. 698, et. al, MCI Petition for Rejection and Suspension and Investigation, filed March 18, 1993 (MCI Petition).

Several LECs no longer are seeking exogenous treatment for overhead costs. See Ameritech Attachment I at 4; BellSouth Exhibit 3 at 2; GTE at 15; NYNEX Attachment A at 3; PacTel at 17; SWBT at 17; and US West at 6.

data base service,[84] neither provides any documentation of the amount of overhead that will be saved or how this amount would compare to the alleged incremental costs. Bell Atlantic claims that the "national nature" of the service led to numerous activities which increased costs.[85] However, the bulk of these activities were either related to the expedited implementation of SS7 investment and the interconnection of SS7 to interexchange carriers (that were specifically denied exogenous treatment), or to ongoing activities, such as industry forums, routinely attended by most industry members.[86]

United's claims that these were specific direct expenses associated with 800 data base service are even more suspect as it admits that it has assessed an average overhead rate, which clearly is not "specific" to 800 data base service.[87] Thus, none of the LECs has justified the inclusion of general overhead expenses[88]

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[84] "[D]ue to the national nature of the service, the level and the intensity of the activities required to implement 800 Data Base Access Service, and the deployment deadlines, caused an increase in the overhead typically associated with a new service and which should therefore be recovered in overhead associated with exogenous costs." Bell Atlantic Appendix B at 4. "To provide 800 data base access service, the company has incurred and will continue to incur expenses for land, buildings, and general administration - - expenses that would not be necessary if 800 data base access service was not provided." United at 11.

[85] Bell Atlantic Appendix B at 4.

[86] Id.

[87] United at 11-12.

[88] SNET makes the spurious claim that the Commission has accepted the inclusion of overheads when defining exogenous costs "[t]hroughout the history of price caps . . . . In prior price cap (continued...)

and MCI urges the Commission to continue to require that they be denied exogenous treatment. Further, none of the LECs has demonstrated that such "overheads" are not already embedded in current charges for other services. MCI doubts that additional personnel were hired due to implementation of 800 data base service.

Additionally, several carriers have included "administrative costs" that have not been specifically identified. Without further explanation, these costs should be treated as overhead and denied exogenous treatment.

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[88](...continued) tariff filings, exogenous costs attributable to regulatory rules and orders (e.g., SPF, DEM and RDA) have always included overheads in addition to direct costs." SNET at 8.

However, the purpose of regulatory changes cited by SNET is to change jurisdictional cost allocation factors, i.e., to reallocate entire categories of costs. The purpose of allowing exogenous treatment of certain 800 data base costs is fundamentally different, i.e., to allow the LECs to recover limited direct costs incurred for implementation of a service, i.e., 800 data base, that is classified as a restructured service. Thus, there is no reason these dissimilar regulatory changes should be accorded parallel treatment.

Thus, the Commission should order further disallowances, in the following amounts:[89]

Table I[90]

Bell Atlantic	$583,000
NYNEX	60,387
PacTel	256,772
SWBT	24,000
US West	74,341
SNET	14,459
United	697,398

Bell Atlantic, GTE, SNET and US West also propose to recover for specifically defined administrative cost increases.[91] SNET maintains that these costs "would not have been incurred for the use of any other service and are specific to 800 data base. . . [including] expenses associated with the initial 800 data base record download and verification, as well as costs associated with SNET's Carrier Access Billing System (CABS) modifications specific

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[89] GTE has failed to follow the Commission's instructions to include unit cost loadings in its direct case. Thus, MCI could not calculate an administration disallowance for GTE. For the other LECs, to avoid double-counting, MCI has excluded from Table I those administrative costs associated with categories that should be denied exogenous treatment in their entirety, i.e., Tandem Switch, SSP and STP costs. Thus, the costs delineated in Table I include only the amounts for STP/SCP Signaling Link, Local STP/Regional STP Signaling Link, SCP/SMS Signaling Link and SCP listed in Appendix I, Schedule B - Exogenous Investment-Related Costs. If the Commission determines that it will allow Tandem Switch and SSP costs, a further disallowance should be made of administration costs for PacTel of $490,570, SWBT of $16,000 and US West of $167,798.

[90] Source = Appendix I, Schedule B, Total, Costs - Administration. Insufficient information was provided to determine whether the revised cost support in the SDCs included the same amounts for administration. For example, Bell Atlantic's SDC lists "none" for the "administration" line, but it is not clear whether such costs are incorporated into the unit cost total. See Bell Atlantic SDC, Workpaper 12.

[91] See Appendix I, Schedule A.

to billing the 800 data base query. . . ."[92] Bell Atlantic, GTE and US West also propose to recover for billing upgrades[93] and Bell Atlantic claims the cost of its "800 Repair Center."[94] However, billing changes are routine upgrades and should not be treated as extraordinary under price caps. Bell Atlantic's assertion that a repair center is necessary "to provide customers with the same level of service with data base access that they enjoyed with NXX access"[95] is belied by the fact that not one other LEC has provided one. Thus, these carriers have failed to demonstrate that these costs are necessary for 800 database. Additionally, they have not even attempted to show that these administrative increases exceed the savings that they will realize due to the elimination of administrative costs associated with providing 800 NXX access.[96] Therefore, the Commission should disallow the billing costs of $.4 million and the repair center costs of $.5 million, as delineated in Appendix I, Schedule A.

In conclusion the Commission should deny exogenous treatment of overhead costs and also disallow administration and administrative costs, incremental to the categories of costs

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[92] SNET at 9.

[93] See Appendix I, Schedule A.

[94] Bell Atlantic at 4 and Appendix C.

[95] Bell Atlantic at 4.

[96] Only Bell Atlantic has reduced its exogenous costs for the savings due to no longer offering 800 NXX access. However, Bell Atlantic does not delineate specifically the savings by category. See Appendix I, Schedule A.

recommended in other sections, above, in the amount of $2.7 million.

5. The LECs' SMS Costs Included as Exogenous Appear Unreasonable

The Commission requested the price cap LECs to provide annual costs for all expenses related to the SMS/800 incurred pursuant to contracts with Bellcore, Data Services Management, Inc., or any other entity.[97] The Commission also requested that the terms of the contract and explanation of how the annualized amount is calculated be provided.[98] The Commission was particularly concerned that the LECs respond to comments made by MCI and others that double recovery was possible between the SMS tariff and charges recovered from the RBOCs in their 800 data base access tariffs.[99]

With few exceptions, the LECs have utterly failed to respond to the issues designated by the Commission. Only Bell Atlantic,[100] SWBT[101] and United[102] provided schedules with any detail regarding the expenses incurred for SMS and/or the method of annualizing the amount to exogenous cost. However, the information provided by these LECs is insufficient to demonstrate whether there

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[97] 800 Designation Order, Appendix A, Section IV.4.

[98] Id.

[99] 800 Designation Order at para. 27 and footnote 21.

[100] Bell Atlantic, Workpaper B-3.

[101] SWBT at 15-16.

[102] United Exhibit A at 1.

is double recovery, as it is unclear that their projected demand for contractual SMS services matches what the RBOCs projected in allocating costs to contractual and tariffed service for the SMS Tariff.[103] Thus, MCI could not compare SMS costs between Bellcore and the LECs in detail, but only in total.

As demonstrated in Appendix I, Schedule A, the RBOCs, GTE and United have allocated approximately $8.2 million annually to exogenous costs for SMS charges from the NASC and Bellcore.[104] Assuming that the LECs have separated SMS charges, MCI has conservatively estimated these LECs' intrastate 800 data base costs at approximately $2.3 million.[105] Thus, for interstate and

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[103] Further, NYNEX filed revised costs for SMS due to "reduced contract rates for 800 Number Administration and Service Center (NASC). . ." NYNEX Ex Parte dated February 4, 1994, at 2. It does not appear that the other LECs have adjusted for these cost reductions.

[104] See Appendix I, Schedule A, Line 6 - SMS, column heading Total Cos.

[105] The LECs for the most part do not delineate their method of allocating SMS costs jurisdictionally. Thus, MCI has estimated the amount of SMS cost that each LEC would pay for intrastate 800 data base services by applying the same ratio of cost to demand for intrastate services as applies to interstate services. See Appendix I, Schedule C. This estimate appears to be reasonable and possibly conservative when compared to the actual allocations for those LECs that provided information.

For example, GTE allocates the bulk of its charges to intraLATA 800 service, i.e, 100% of its record, searches and reservations monthly charges, 50% of its dial-up, 9.6 dedicated STP and 9.6 dedicated SCP monthly charges,and 100% of the PS record download monthly charges. Although it allocates only 10% of the network charge and 10% of the SCP database monthly charge and logon monthly charges to interstate (GTE at 9) MCI believes its estimate of 50 percent of the total SMS charges to GTE's intralata service is reasonable.

Also, SWBT allocates 28 percent of SMS charges to the interstate jurisdiction based on a PIU. SWBT at 15-16. However,

(continued...)

intrastate services, combined, these LECs are attempting to charge ratepayers over $10.5 million in SMS costs. The figure for these LECs should be lower than the total amount the RBOCs will recover from its SCP Owner Operator SMS contracts, which also includes contractual charges Bellcore would recover from other ITCs or entities such as ITN, which provides query capability to ITCs.[106]

However, the RBOCs contend that the total amount that they will recover from LECs holding contracts with them is $40.4 million from May 1, 1993 through December 31, 1997.[107] The present value of this amount, discounted at the rate of 11 percent, would be approximately $31.5 million, or $6.7 million annually. These figures demonstrate that the LECs will be recovering from their ratepayers in query costs around $4.3 million more annually than the RBOCs allege they will receive contractually for the SMS. It is impossible to determine which LEC gives rise to this obvious double recovery as the RBOCs do not delineate their SMS contract demand assumptions by LEC and the LECs do not disclose their costs by category. However, the LECs clearly have failed to demonstrate the validity or reasonableness of the SMS costs included as exogenous. Thus, MCI urges the Commission to require all LECs to file information that will reveal the amount of the approximately

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[105](...continued)
using MCI's cost/demand ratio estimation, only about 20 percent of SWBT's SMS cost would be estimated. See Appendix I, Schedule C.

[106] See, e.g., Lafourche at 2.

[107] RBOCs at 25, Table A.

$4.3 million of excess SMS cost that is attributable to each LEC, and to remove these overages from their 800 data base service exogenous costs.

B. ONLY THE COMMISSION'S PROPOSED ALTERNATE METHOD (METHOD 3) FOR PRICE CAP CARRIERS TO RESTRUCTURE THEIR TRAFFIC-SENSITIVE BASKETS WHILE ADJUSTING FOR EXOGENOUS COSTS IS REASONABLE

The Commission seeks comment on three possible methods for restructuring the traffic-sensitive basket while adjusting for exogenous costs whenever a new service category (such as 800 data base access service) is introduced within the basket.[108/]

MCI agrees with NYNEX that:

> Method 3 may be the best method for restructuring the traffic-sensitive basket while adjusting for exogenous costs whenever a new service category within the basket is introduced. Under Method 3, the price cap index (PCI) would be adjusted but the rates, indices and limits for existing categories within the traffic sensitive basket would not change, thereby preserving the existing degree of pricing flexibility.[109/]

Method 2 may comply with the Commission's price cap rules, but it also has the effect of raising the upper and lower limits of the service band indices (SBIs) in the traffic-sensitive basket. Thus, the use of this method will result in increased pricing flexibility opportunities within the basket. Also, as NYNEX notes, "[t]he use of Method 2 may also force a LEC to increase rates in some service categories even though the LEC would prefer not to do so. This is particularly true where a service category has only a few rate

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108/ <u>800 Designation Order</u> at paras. 8-24.

109/ NYNEX at 7.

elements that can be changed."[110] Method 1 also results in minor changes to the existing SBIs for the service categories within the traffic-sensitive basket and is a violation of price cap rules.

Thus, to preserve the integrity of the existing SBIs, MCI urges the Commission to grant a blanket waiver of the price cap rules so that it may require the LECs to use Method 3.

C. SEVERAL LECS' DEMAND ESTIMATES FOR QUERY CHARGES ARE NOT JUSTIFIED

1. Several Price Cap LECs Fail to Justify the Demand Figures Used in Their Ratemaking

The Commission requested that price cap carriers respond to several questions on demand,[111] recognizing that "[f]or 800 query charges, most of the price cap LECs developed their rates primarily by dividing their exogenous costs by their estimated demand."[112] Further, the Commission requested that each carrier provide base period demand used in the restructure calculation as well as the demand used in cost estimates, the time period used in demand estimates and the discount rate used to calculate demand estimates, that were levelized over a period of years.[113]

The responses to the Commission's request, summarized in Appendix IV, Schedule A, attached, indicate that the price cap LECs use widely disparate and conflicting demand assumptions or they simply fail to document them altogether. For example, PacTel and

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[110] Id. at 6.

[111] 800 Designation Order at para. 30 and Appendix A.III.

[112] Id. at para. 30.

[113] Id. at Appendix A.III.

BellSouth use demand figures for the calendar year 1991. PacTel claims that is the appropriate base period.[114] GTE and SWBT use the calendar year 1992 as base period demand. Bell Atlantic's SDC is fraught with questionable assumptions. Bell Atlantic allocates its SCP investment based upon historical demand, rather than demand forecasts for each of the joint services.[115] Further, it is not clear whether Bell Atlantic used the same year for 800 database demand as it used for LIDB demand.[116] Obviously growth from year to year could significantly distort the resulting allocation.

For cost development, several carriers use a five year forecast with varying underlying demand assumptions. For example, Ameritech uses a discount rate of 10.9 percent, NYNEX uses 11 percent, United and GTE use the allowed rate of return of 11.25 percent.[117] Bell Atlantic changed its discount rate from 12.9 percent,[118] allegedly its the "weighted cost of its prospective equity and debt,"[119] to 11.25 percent[120] without explanation.[121] US West does not use a

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[114] PacTel claims that demand growth assumptions are not rate affecting as PacTel has utilized base period demand consistent with the rule 61.47. PacTel claims 1991 was "the correct base period demand at the time of the original tariff filing." PacTel at 14.

[115] Bell Atlantic SDC, Workpaper 1 at 1.

[116] Id.

[117] See Appendix IV, Schedule A.

[118] Bell Atlantic Appendix B at 2.

[119] Bell Atlantic Appendix B at 2.

[120] Bell Atlantic SDC at 8.

discount rate at all.[122] However, not one of these LECs has demonstrated the reasonableness of its assumptions.

With respect to demand stimulation, Ameritech estimated a dramatic jump in query demand in 1993-1994 and a slow-down in 1995 as the market for new applications becomes saturated.[123] Bell Atlantic claims to have made assumptions about the impact of number portability on demand, but does not explain what those assumptions were.[124] BellSouth, GTE, SNET and United did not take demand stimulation into account at all.[125] NYNEX "believe[s] that any pent-up demand stimulation attributable to the implementation of

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[121] (...continued)
[121] BellSouth, Pacific and Nevada Bell and Southwestern Bell did not provide additional cost support except with respect to vertical features.

[122] US West Appendix A at 5.

[123] Ameritech Attachment I at 2.

[124] Bell Atlantic Appendix B at 2.

[125] BellSouth Exhibit 3 at 1. GTE assumed no demand stimulation as a result of 800 portability as "[t]hese 800 features are not expected to stimulate additional end user usage since new end user services or benefits are not expected.

The 800 services market has been extremely competitive with respect to price, even prior to the introduction of 800 number portability. GTE expects subscriber prices charged by the interexchange carriers to decline only minimally as a result of competitive positioning among the carriers due to these new subscriber benefits. GTE does not expect that such price reductions will stimulate an appreciable level of demand over and above historical 800 industry trends." GTE at 13-14. <u>See</u>, <u>also</u>, SNET at 17. "United calculated that the number of originating 800 calls in 1992 increased by 18.56 percent over 1991. In this way, United estimated that it could expect similar growth in queries to the 800 data base during the first year of 800 data base access service. . . Demand growth in the outer years was forecasted based on historical trends but not at as great a rate as the initial year, reflecting the fact that demand growth for a new service levels off over time." United at 19.

number portability will be captured in the annual 15% growth estimate."[126]

It is unfathomable that the LECs will experience demand stimulation to such varying degrees, as 800 data base is a national service and will certainly be stimulated fairly uniformly throughout all of the LECs' territories. MCI has experienced an increase in customers with new 800 applications in addition to those transferring from other carriers and would expect some measure of demand stimulation to be experienced by all LECs.

Also, several LECs assert that they converted MOU to estimate queries using an average duration per query, but do not disclose the average used.[127] Bell Atlantic estimates a holding time of 2.32 MOU per query[128] and SWBT uses an average of 2.75 MOU per query.[129] PacTel and US West do not explain how they translated MOU into queries. All LECs should be required to disclose their approach in developing these averages as well the resulting

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[126] NYNEX Appendix A at 1. NYNEX also used "a growth rate of 15%, which is less than the historic growth rate of 20%. The NTCs believe that a 15% growth rate is appropriate given the poor economic conditions of the Northeast and the fact that 800 service is a mature service which has been available to subscribers since 1967." Id. As it is difficult to imagine usage of a toll-free national service will decline in any one region due to local economic conditions, NYNEX's arguments are unpersuasive.

[127] See, e.g. BellSouth Exhibit 1B at 4, SNET at 16 and United at 19.

[128] Bell Atlantic Appendix B at 2.

[129] SWBT at 15.

ratios.[130] Further, the LECs will be charging for queries even if the call is not completed. Query demand may be incorrect if the LECs do not factor uncompleted calls into the formula to convert MOU to queries.

The LECs also vary widely in their estimates of calls that will use routing options. For example, estimates of the percentage of queries which would use routing options vary from 60 percent for Ameritech,[131] to 10-20 percent for BellSouth.[132] Bell Atlantic changed its demand estimate for vertical features from 30 percent to .34 percent of basic query demand,[133] PacTel revised its estimate to .15 percent[134] and SWBT revised its estimate from 15 percent to 5 percent.[135]

Given the variety of assumptions among the LECs, whether the LECs' underlying demand assumptions are reasonable remains a mystery. Clearly, LECs have failed to justify their demand estimates.

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[130] All carriers should also be required to compare their demand estimates with actual queries. For example, US West noted that its actual experience with 800 data base demand is approximately 2% lower than demand US WEST had estimated. US West Appendix A at 5.

[131] Ameritech Attachment I at 1.

[132] BellSouth at 5.

[133] Bell Atlantic SDC at 8-9.

[134] PacTel SDC at II-1.

[135] SWBT SDC D&J, Section 1.3.

2. Several Rate of Return Carriers' Estimates of Unbillable Queries are Unreasonably High, Resulting in Understated Demand and Excessive Query Rates

Many rate of return carriers fail to address the issue of unbillable query estimation techniques.[136/] Further, those that do respond generally provide only their estimates, void of any supporting methodology. It is not surprising, then, that LEC unbillable queries range from zero percent,[137/] almost two percent,[138/] four percent,[139/] and five percent,[140/] up to ten and twenty percent.[141/] While a few carriers described the circumstances that might create unbillable queries, none offered more insight as to its estimation method other than to state that it relied on "judgement"[142/] or that it was based on May 1, 1993 filings and "discussions with service providers."[143/] Curiously, neither ALLTEL nor its Sugarland affiliate provides any explanation as to what factors and underlying assumptions differed so that their estimates varied between the two companies.

136/ The Independents and Lincoln do not respond to the question at all.

137/ Great Plains at 2, CBT at 5, GVNW at 4 and Lafourche at 2.

138/ Great Plains at 2.

139/ Sugarland at 4.

140/ ALLTEL at 4, NECA at 9-10 and Roseville at 3.

141/ TUECA at 4 and Rochester at 20.

142/ TUECA at 4.

143/ ALLTEL at 4.